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DEPARTMENT FOR EAP/ANP-DRICCI AND EB/TPP/BTA/ANA-MBGOODMAN
STATE PASS TO USTR FOR BWEISEL
COMMERCE FOR 4530/ITA/MAC/AP/OSAO/ABENAISSA

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TAGS: [ECON](#) [ETRD](#) [NZ](#)
SUBJECT: DRUG INDUSTRY SEES POSSIBLE SALVE TO ITS PAIN IN
NEW ZEALAND

REF: A. 05 WELLINGTON 577

[1](#)B. 05 WELLINGTON 119
[1](#)C. 04 WELLINGTON 1037

(U) Classified by Charge d'Affaires David R. Burnett.
Reason: 1.4 (b) and (d).

Summary

[1](#)1. (SBU) The pharmaceutical industry in New Zealand is enjoying a dose of optimism about the prospect of changes to the government's drug-purchasing system, which has crimped the industry for the past 12 years. The government has promised a review of the system that controls the range and price of most prescription medicines in New Zealand, at a time when patient and doctors' attacks on its drug-purchasing agency have escalated. Nonetheless, most drug companies continue to believe that only the lure of a free-trade agreement between New Zealand and the United States would prompt the New Zealand government to make the changes the industry contends are needed to assure its long-term viability in the country.

Pressuring PHARMAC

[1](#)2. (U) Since 1993, the Pharmaceutical Management Agency (PHARMAC) has decided which medicines will be subsidized by the government and how much reimbursement will be paid. PHARMAC controls the purchase of about 80 percent of prescription pharmaceuticals in New Zealand. The agency's aim is to contain pharmaceutical spending, and it has largely succeeded. While the total number of prescriptions written for most drugs has risen since 1997, the average price of prescriptions has decreased, mainly as a result of price reductions negotiated by PHARMAC with drug manufacturers. The focus on holding down costs has meant that many cutting-edge drugs are not subsidized or that manufacturers withhold certain unsubsidized drugs from the New Zealand market because their negligible sales discourage efforts to secure regulatory approval (ref C).

[1](#)3. (U) Over the past year, PHARMAC has come under increased political criticism, greater scrutiny by the media and sharper questioning by the public. First, it mishandled the supply of the nation's influenza vaccine before last winter's flu season. To secure the best deal, PHARMAC placed its entire vaccine order with Sanofi Pasteur, which then encountered a manufacturing problem in late February 2005 that left New Zealand 150,000 doses short. Alternate

suppliers eventually were found, and PHARMAC now insists on dual sources for vaccines. But the incident highlighted the agency's common practice of maximizing discounts by negotiating with a single supplier.

¶4. (U) Patient groups, doctors and the public have become increasingly vocal about PHARMAC's shortcomings -- a contrast from past years in which consumers generally believed that if PHARMAC did not fund a drug, it was not worth having (ref C).

Uppermost in the public's mind is the agency's failure to fund modern medicines for a range of illnesses including early stage breast cancer, heart disease, HIV/AIDS and Alzheimer's. PHARMAC last year backed down from several decisions that sparked outrage among doctors and patients. For instance, the agency had hoped to save NZ \$1 million (US \$697,300) by halting subsidies for the asthma drug Ventolin in favor of Salamol, a cheaper substitute. After a public outcry, PHARMAC announced it would allow patients to choose either product for a two-year period. In perhaps the most significant expression of public unhappiness with PHARMAC, 25 non-government health organizations on November 24 launched the Access to Medicines NGO Coalition, calling for a review of PHARMAC.

¶5. (U) The past year also has seen a surge in newspaper articles describing the plight of patients with life-threatening diseases who were unable to afford unsubsidized medicines. Professional criticism is also on the rise. Several cancer specialists told reporters that New Zealand lagged other Western countries in providing publicly funded access to the latest cancer drugs. A cardiologist said doctors increasingly were being forced to treat patients with outmoded medications. The New Zealand Medical Journal published a series of case studies criticizing PHARMAC's practices, including its sole-supply agreements, the asthma-drug decision and the failure to subsidize certain medicines.

¶6. (C) These developments provide mounting evidence of eroded public confidence in PHARMAC, according to Lesley Clarke, chief executive officer of Researched Medicines Industry Association of New Zealand (RMI), the industry's trade association. She also noted that, after the flu-vaccine debacle, then Minister of Health Annette King acknowledged for the first time that PHARMAC needed improvement.

Reviewing Pharmac

¶7. (U) The Labour government has promised to develop "a long-term medicines strategy relating to quality pharmaceutical usage in the health sector including the role PHARMAC should play in implementing that strategy." Labour made that commitment as part of its agreement with the United Future party to form a government after the September 17 elections. The opposition National Party, which created PHARMAC while in government in 1993, also supports an agency review.

¶8. (SBU) PHARMAC says it welcomes such a review, which it hopes will bring about an increase in the budget for drug purchases. According to Stuart Bruce, the agency's communications and external relations manager, PHARMAC last year ordered a review of its decision-making process for high-cost drugs and expects to consider proposed changes this year. Bruce said PHARMAC has found it increasingly difficult to choose between funding expensive drugs for less common diseases and funding cheaper medicines that help larger numbers of patients.

¶9. (C) A new health minister, Pete Hodgson, also may portend a more hospitable environment for the pharmaceutical industry. According to Clarke of RMI, Hodgson, a former veterinarian and science teacher, acknowledges a link between a strong biotechnology sector -- one of the government's top economic goals -- and research and development funded by the pharmaceutical industry. Faced with a restrictive business environment, the industry over the last decade has slashed

its research spending in New Zealand. Hodgson's predecessor, Annette King, took a different view of the pharmaceutical industry, telling its representatives that if the industry disappeared from New Zealand, the country would simply source its medicines elsewhere.

Industry in flux

¶10. (C) These potential changes come at a moment when many of the pharmaceutical firms are reporting that, for the first time in years, they are not cutting staff. A couple company chief executives also noted that, for the first time in three to four years, they have succeeded in getting a new drug funded -- albeit, at the cost of accepting further reductions in the subsidized prices of other products. On the other hand, GlaxoSmithKline (GSK) last year reduced its staff in New Zealand by 73 percent, to fewer than 15 positions. It lost to competitor companies in trying to win subsidies for several of its leading drugs, and a couple of its competitors say that GSK is paying a price for publicly and aggressively challenging PHARMAC a couple years ago.

¶11. (C) Many of the pharmaceutical companies believe that only a U.S. offer of free-trade negotiations would induce the New Zealand government to consider significant policy changes that would affect the industry's competitive position. One company representative cited the government's suspension of a study on extending the effective patent life for pharmaceuticals as evidence of the government's decision to forgo any changes to pharmaceutical policies that might be used as trade-offs in negotiating a free-trade agreement (FTA). The industry wants many of the same concessions that were provided in the Australia-U.S. FTA, particularly requiring greater transparency in the drug-purchasing agency's decision-making and the right to appeal its decisions. In addition, the industry wants a longer effective patent life for pharmaceuticals and a change in PHARMAC's reference-pricing practice, or subsidizing a pharmaceutical at the level of the lowest-priced medicine in a therapeutic subgroup. The industry wants a commitment to greater funding of pharmaceutical purchases.

¶12. (C) Meanwhile, a local area working group (LAWG) was formed last year by eight pharmaceutical companies that are

based in the United States or do business there. The group includes two companies -- Pfizer and GSK -- that withdrew from RMI over the past two years in disagreement over RMI's priorities. The LAWG's professed aim is to work on issues that might be raised in FTA negotiations and address concerns beyond just pharmaceuticals, such as investment in research and development. However, RMI -- which LAWG members said would continue to serve as the industry's public spokesperson -- worries that there may not be room for both groups. The formation of another industry group may give the government (and PHARMAC) more leverage in playing one company off another. However, the LAWG's formation also may foreshadow a more aggressive approach by the industry toward the government.

Comment

¶13. (C) Notwithstanding U.S. government views on a possible FTA with New Zealand, post believes that the formation of a new coalition government provides a timely opportunity to foster dialogue between the pharmaceutical industry and the government. Post is working with the British High Commission to co-host informal meetings between the industry and government that would aim to reduce the animosity that has characterized their relations. (The British are assisting us to prevent the appearance of a U.S.-only initiative.) This ideally would allow each side to gain a better understanding of each other and to recognize common goals. The intent is to supplement the efforts of both RMI and the LAWG.
Burnett